

**WELLS TOWNSHIP SCHOOL DISTRICT #18
ARNOLD, MICHIGAN**

**FINANCIAL STATEMENTS
For the Year Ended June 30, 2006**

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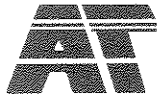
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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Wells Township School District #18
PO Box 108
Arnold, Michigan 49819

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wells Township School District #18, as of and for the year ended June 30, 2006, which collectively comprise the Wells Township School District #18's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Wells Township School District #18's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Wells Township School District #18 as of June 30, 2006, and the respective changes in financial position where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006 on our consideration of the Wells Township School District #18's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
Wells Township School District #18
PO Box 108
Arnold, Michigan 49819

The management's discussion and analysis and budgetary comparison information on pages 5 through 11 and 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Wells Township School District #18's basic financial statements. The combining and individual fund financial statements and schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 1, 2006

Wells Township School District #18 Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of Wells Township School District #18 financial performance provides an overview of the School District's financial activities for the year ended June 30, 2006. Please read it in conjunction with the financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- Net assets for Wells Township School District #18 as a whole were reported at \$368,228. Net assets are comprised of 100% governmental activities.
- During the year, Wells Township School District #18 expenses were \$399,038, while revenues from all sources totaled \$411,139, resulting in an increase in net assets of \$12,101.
- The general fund reported an increase of \$10,994 before other financing sources (uses) and a total increase of \$3,353. This is \$10,161 or 148% higher than the forecasted decrease of \$21,228.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Wells Township School District #18 financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 12 and 13) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds.

Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the Wells Township School District #18 as a whole begins on page 6. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in them. The School District's net assets – the difference between assets and liabilities – are one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

Management's Discussion and Analysis (Unaudited) (Continued)

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – *Fund Financial Statements*

Our analysis of the School District's major funds begins on page 8. The fund financial statements begin on page 14 and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes. The School District's *governmental* funds use the following accounting methods.

- *Governmental Funds* – All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

The School District as a Whole

Table 1 provides a summary of the School District's net assets as of June 30, 2006 and 2005:

Table 1 Net Assets		
	Governmental Activities – 2006	Governmental Activities – 2005
Current and other assets	\$381,142	\$374,222
Capital assets, net	51,400	53,900
Total Assets	432,542	428,122
Current liabilities	52,791	49,224
Long-term liabilities	11,523	22,771
Total Liabilities	64,314	71,995
Net Assets:		
Invested in capital assets, net of related debt	51,400	53,900
Restricted	-	-
Unrestricted	316,828	302,227
Total Net Assets	\$368,228	\$356,127

Management's Discussion and Analysis (Unaudited) (Continued)

The School District's net assets were \$368,228 at June 30, 2006. Capital assets, net of related debt totaling \$51,400, compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accreted interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$316,828 was unrestricted.

The \$316,828 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

TABLE 2
CHANGE IN NET ASSETS

	Governmental Activities – 2006	Governmental Activities – 2005
Revenues:		
Program revenues:		
Charges for services	\$12,659	\$21,541
Operating grants and contributions	67,728	41,495
General revenues:		
Property taxes	313,425	317,799
State sources not restricted to specific program	2,141	11,706
Investment earnings	11,098	6,713
Miscellaneous	4,088	3,155
Total Revenues	411,139	402,409
Program Expenses:		
Instruction	199,667	188,514
Supporting services	166,446	182,606
Payments to other governmental units	11,433	5,974
Food service activities	21,492	19,769
Depreciation – unallocated	-	-
Total Expenses	399,038	396,863
Increase (decrease) in net assets	12,101	5,546
Net assets, beginning	356,127	350,581
Net Assets, Ending	\$368,228	\$356,127

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$399,038. Certain activities were partially funded from those who benefited from the programs \$12,659 or by other governments and organizations that subsidized certain programs with grants and contributions \$67,728. We paid for the remaining "public benefit" portion of our governmental activities with \$313,425 in taxes, \$2,141 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets for the year of \$12,101.

Management's Discussion and Analysis (Unaudited) (Continued)

Key reasons for change in net assets are as follows:

- Net increase in governmental fund balances of \$3,353
- Depreciation charged to expense of (\$2,500)
- Change in compensated absences \$11,248

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$199,667	\$138,804
Supporting services	\$166,446	160,773
Payments to other governmental units	11,433	11,433
Food service activities	21,492	7,641

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$328,351, an increase of \$3,353 from the beginning of the year.

The change in combined fund balance was a result of Wells Township Schools making a conscious effort to try and reduce spending to maintain a fund balance that will assist the School in remaining financially stable for the upcoming year.

General Fund Budgetary Highlights

Over the course of the year, the School District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget occurred during the annual budget reviews in January and June 2006.

Management's Discussion and Analysis (Unaudited) (Continued)

BUDGETED REVENUES

General Fund Revenues changed from original to final budget during the year as follows:

	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Total	<u>\$366,972</u>	<u>\$395,728</u>	<u>\$28,756</u>	<u>8%</u>

Wells Township School's final budgeted revenues differed from the original budget as follows:

- By \$ 28,756 or 8%

The significant increase in the budgeted revenue can be attributed mainly to Grants (\$23,560). Grants are recognized on Wells Township Schools financial statements once they receive formal notice of award and approval from the state. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. Also, the final budgets include grant revenues that will be utilized in the next fiscal year. The District budgeted the entire grant awarded by the grantors, even if the grants were to be eligible for carryover in the next fiscal year.

BUDGETED EXPENDITURES

General Fund expenditures changed from the original to final budget during the year as follows:

	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Total	<u>\$381,991</u>	<u>\$394,547</u>	<u>\$12,556</u>	<u>3%</u>

Wells Township School's final budgeted expenditures differed from the original budget as follows:

- By \$12,556 or 3%

The significant increase in the budgeted expenditures can be attributed mainly to Grants. Grants are recognized on Wells Township Schools financial statements once they receive formal notice of award and approval from the state. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. Also, the final budgets include grant expenditures that will be expended in the next fiscal year. The District budgeted the entire grant awarded by the grantors, even if the grants were to be eligible for carryover in the next fiscal year.

ACTUAL REVENUES

The General Fund actual revenues differed from the final budget as follows:

	Final Budget	Actual	Budget Variance	
			Amount	Percent
Total	<u>\$395,728</u>	<u>\$397,288</u>	<u>\$1,560</u>	<u>1%</u>

Wells Township School's final budgeted revenues differed from the actual revenues as follows:

- By \$1,560 or 1% greater than the final budget.

Management's Discussion and Analysis (Unaudited) (Continued)

The significant variance in revenue can be attributed mainly to USF revenue \$1,371. This was due to actual USF reimbursements being greater than anticipated.

ACTUAL EXPENDITURES

General Fund actual expenditures differed from the final budget as follows:

	Final Budget	Actual	Budget Variance	
			Amount	Percent
Total	\$394,507	\$386,294	\$8,253	2%

Wells Township School's final budgeted expenditures differed from the actual revenues as follows:

- By \$8,253 or 2% less than the final budget.

The significant variance in expenditures can be attributed mainly to utilities and fuel costs for both the building and buses being less than anticipated.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006 and 2005, the School District had \$ 51,400 and \$53,900, respectively invested in a variety of capital assets including land, buildings, and buses. (See table 4 below)

TABLE 4
Capital Assets

	Governmental Activities – 2006	Governmental Activities – 2005
Land	\$150	\$150
Land improvements	11,375	11,375
Buildings	230,000	230,000
Equipment and furnishings	-	-
Buses	85,503	85,503
Capital Assets	327,028	327,028
Less accumulated depreciation	(275,628)	(273,128)
Totals	\$51,400	\$53,900

There were no current year additions. We anticipate capital additions for the 2006-2007 fiscal years will be comparable to the 2005-2006 fiscal years. Depreciation expense for the year was \$2,500.

Debt

There were no new additions to debt this year. At the end of this year, the School District had no bonds outstanding. We present more information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2007 budget. One of the most important factors affecting the budget is the collection of local property taxes. Local property taxes account for approximately 80 percent of our revenue.

Management's Discussion and Analysis (Unaudited) (Continued)

The collection of revenues by the State can also affect the School District's general operation budget as it did in 2006. School districts throughout the state must adjust their budgets if the State decreases the pupil foundation grant or categorical funding during its fiscal year. While we are optimistic about the 2006-07 school years, the state of the economy on a state and national level will be reflected in our budget.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Wells Township School District #18 Administration, P.O. Box 108, Arnold, Michigan, 49819.

Wells Township School, District #18

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 367,125
Receivables:	
Accounts receivable	384
Due from other governmental units	13,343
Inventories	290
Prepaid expenses	-
	<hr/>
TOTAL CURRENT ASSETS	381,142
	<hr/>
Non-current assets:	
Land and construction in progress	150
Capital assets	326,878
Less accumulated depreciation	(275,628)
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TOTAL NON-CURRENT ASSETS	51,400
	<hr/>
TOTAL ASSETS	432,542
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LIABILITIES:	
Current liabilities:	
Accounts payable	8,963
Accrued liabilities	42,862
Deferred revenue	966
Current portion of long term debt obligations	-
Other current liabilities	-
	<hr/>
TOTAL CURRENT LIABILITIES	52,791
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Non-current liabilities:	
Non-current portion of employee benefit obligations	11,523
	<hr/>
TOTAL NON-CURRENT LIABILITIES	11,523
	<hr/>
TOTAL LIABILITIES	64,314
	<hr/>
NET ASSETS:	
Invested in capital assets net of related debt	51,400
Unrestricted	316,828
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TOTAL NET ASSETS	\$ 368,228
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See Notes to Financial Statements.

Wells Township School, District #18

Statement of Activities

For the Year Ended June 30, 2006

Function / Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 199,667	\$ 4,008	\$ 56,855	\$ (138,804)
Supporting services	166,446	5,673	-	(160,773)
Payments to others	11,433	-	-	(11,433)
Food service activities	21,492	2,978	10,873	(7,641)
TOTAL GOVERNMENTAL ACTIVITIES	399,038	12,659	67,728	(318,651)
General revenues:				
Taxes				
Property taxes, levied for general purposes				313,425
State Aid not restricted to specific purposes				
General				2,141
Interest and investment earnings				11,098
Miscellaneous				4,088
TOTAL GENERAL REVENUES				330,752
CHANGES IN NET ASSETS				12,101
Net Assets , July 1				356,127
NET ASSETS, JUNE 30				\$ 368,228

See Notes to Financial Statements.

Wells Township School, District #18

Governmental Funds

Balance Sheet

June 30, 2006

	General Fund	Other Non-major Governmental Funds (Lunch Fund)	Total
ASSETS			
Cash and cash equivalents	\$ 367,125	\$ -	\$ 367,125
Receivables:			
Accounts receivable	-	63	63
Due from other governmental units	13,343	-	13,343
Due from other funds	321	-	321
Inventories	-	290	290
Prepaid expenditures	-	-	-
TOTAL ASSETS	\$ 380,789	\$ 353	\$ 381,142
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 8,610	\$ 32	\$ 8,642
Accrued liabilities	42,862	-	42,862
Due to other funds	-	321	321
Deferred revenue	966	-	966
Other liabilities	-	-	-
TOTAL LIABILITIES	52,438	353	52,791
FUND BALANCES:			
Unreserved	328,351	-	328,351
TOTAL FUND BALANCES	328,351	-	328,351
TOTAL LIABILITIES AND FUND BALANCES	\$ 380,789	\$ 353	\$ 381,142

See Notes to Financial Statements.

Wells Township School, District #18

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2006

Total Fund Balances for Governmental Funds	\$	328,351
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*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Cost of capital assets	327,028	
Accumulated depreciation	<u>(275,628)</u>	
		51,400

Long-term liabilities are not due and payable in the current period and are
not reported in the funds. Long-term liabilities at year-end consist of:

Employee benefits payable	<u>11,523</u>	(11,523)
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>368,228</u>
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Wells Township School, District #18

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2006

	General Fund	Other Non-major Governmental Funds (Lunch Fund)	Total
REVENUES:			
Federal sources	\$ 40,737	\$ 10,737	\$ 51,474
State sources	4,286	136	4,422
Local sources:	<u>352,265</u>	<u>2,978</u>	<u>355,243</u>
TOTAL REVENUES	<u>397,288</u>	<u>13,851</u>	<u>411,139</u>
EXPENDITURES:			
Current:			
Instruction	210,915	-	210,915
Supporting Services	163,946	-	163,946
Payments to others	11,433	-	11,433
Food service activities	<u>-</u>	<u>21,492</u>	<u>21,492</u>
TOTAL EXPENDITURES	<u>386,294</u>	<u>21,492</u>	<u>407,786</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>10,994</u>	<u>(7,641)</u>	<u>3,353</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	7,641	7,641
Transfers (out)	<u>(7,641)</u>	<u>-</u>	<u>(7,641)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7,641)</u>	<u>7,641</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	3,353	-	3,353
Fund Balance, July 1	<u>324,998</u>	<u>-</u>	<u>324,998</u>
FUND BALANCE, JUNE 30	<u><u>\$ 328,351</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 328,351</u></u>

See Notes to Financial Statements.

Wells Township School, District #18

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities**

For the Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	3,353
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*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	2,500	
Capital outlays	<u>-</u>	(2,500)

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

11,248

Change in Net Assets of Governmental Activities

\$ 12,101

WELLS TOWNSHIP SCHOOL DISTRICT #18

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – THE FINANCIAL REPORTING ENTITY:

The School District operates under an elected Board of Education of five (5) members, which are elected across the District to establish programs and policies.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the financial position of the Wells Township School District #18. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Based upon the application of these criteria, the financial statements of the Wells Township School District #18 contain all the funds controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The School District reports the General Fund as its only major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund – The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects), such as the School Service.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below. In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School District. The School Lunch Fund consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

Property Taxes

Property taxes are levied on July 1 and December 1, on behalf of the District by various taxing units and are payable without penalty by September 30 and February 28. The District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year.) Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C – DEPOSITS AND INVESTMENTS:

Cash Equivalents

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets for the primary government from the Statement of Net Assets.

NOTE C – DEPOSITS AND INVESTMENTS (Continued):

	Primary Government	Total
Unrestricted:		
Cash and cash equivalents	\$367,125	\$367,125
TOTALS	\$367,125	\$367,125

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. State law does not require and the School does not have a deposit policy for custodial credit risk. The carrying amounts of the School's deposits with financial institutions were \$367,125 and the bank balance was \$374,334. The bank balance is categorized as follows.

Amount insured by the FDIC	\$200,000
Amount uncollateralized and uninsured	174,334
	<u>\$374,334</u>

Investments

As of June 30, 2006, the School did not have any investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the School's investments. The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes (Act 196, PA 1997) authorize the School to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The School has no investment policy that would further limit its investment choices. Ratings are not required for the School's investment in U.S. Government Agencies or equity-type funds.

Concentration of Credit Risk

The School places no limit on the amount the School may invest in any one issuer. There were no investments subject to concentration of credit risk disclosure.

NOTE D – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units consist of \$747 due from the State of Michigan for State Aid and \$12,596 due from governmental units for the operation of special programs and grant projects.

NOTE E – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2006 as follows:

	Governmental Activities
Accrued wages	\$28,755
Accrued health insurance	6,173
Accrued lieu of insurance	962
Accrued retirement	4,699
Accrued payroll taxes	2,273
	<u>\$42,862</u>

NOTE F – ACCRUED EMPLOYEE BENEFITS:

The School District accrues the liability for earned sick leave based on the termination method. The liability is accrued as the benefits are earned. The current labor agreements stipulate sick leave must be taken in order to be paid, except at retirement. Teachers and administration personnel have the option of being paid for one-half of accumulated sick leave days, up to a maximum of 180 accumulated days, or they may request payment for the Universal Service Credit up to a maximum of \$32,500, upon retirement.

As of June 30, 2006, accrued employee benefits reported in the Statement of Net Assets consist of the following:

Sick Leave \$ 11,523

NOTE G – CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$150	\$-	\$-	\$150
Construction in progress	-	-	-	-
Total Capital assets not being depreciated	<u>150</u>	<u>-</u>	<u>-</u>	<u>150</u>
Capital assets being depreciated:				
Land improvements	11,375	-	-	11,375
Buildings and additions	230,000	-	-	230,000
Equipment and furniture	-	-	-	-
School buses	85,503	-	-	85,503
Total Capital Assets	<u>327,028</u>	<u>-</u>	<u>-</u>	<u>327,028</u>
Less accumulated depreciation:				
Land improvements	(11,375)	-	-	(11,375)
Buildings and additions	(176,250)	(2,500)	-	(178,750)
Equipment and furniture	-	-	-	-
School buses	(85,503)	-	-	(85,503)
Total Accumulated Depreciation	<u>(273,128)</u>	<u>(2,500)</u>	<u>-</u>	<u>(275,628)</u>
CAPITAL ASSETS, NET	<u>\$53,900</u>	<u>\$(2,500)</u>	<u>\$-</u>	<u>\$51,400</u>

Depreciation expense charged to supporting services was \$2,500.

NOTE H – STATE REVENUE:

The State of Michigan currently uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the weighted average of pupil membership counts taken in February and October of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2005 – August 2006.

The School District also received revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

NOTE I – INTERFUND RECEIVABLES AND PAYABLES:

Wells Township School District #18 reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in interfund receivables and payables are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General	<u>\$ 321</u>	School Service	<u>\$ 321</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

<u>Fund</u>	<u>Transfer Out</u>	<u>Fund</u>	<u>Transfer In</u>
General	<u>\$ 7,641</u>	School Service	<u>\$ 7,641</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE J – NON-MONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized \$2,822 during fiscal 2006 in revenues and expenditures for USDA commodities.

NOTE K – PROPERTY TAXES:

The taxable value of real and personal property located in the School District at December 31, 2005 totaled \$ 23,726,560 (\$6,601,519 designated as Homestead and \$ 17,125,041 designated as Non-Homestead). The total tax levied consists of 18.0000 mills for the General Fund.

NOTE L – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service. The MPERS also provides death, disability, health, medical, dental, and vision and hearing insurance coverage. Benefits are established by state statute.

The MPERS also provides death, disability, health, medical, dental and vision and hearing insurance coverage. Benefits are established by State Statute.

The District was required by state statute to contribute 14.87% of covered compensation to the Plan through September 30, 2005 and 16.34% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2006 was \$37,155 which consisted of \$30,298 from the District and \$6,857 from employees electing the MIP option. These represent approximately 3.61% and 15.95% of covered payroll, respectively. The School District's contributions to MPERS for 2005 was \$33,677 and for 2004 \$33,221.

Payroll paid to employees covered by the System for the year ended June 30, 2006 was approximately \$189,902. The District's total payroll was approximately \$215,665.

Other Post-Employment Benefits

In addition to pension benefits, MPERS provides comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPERS is factored into the pension contribution rate.

NOTE L – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS at MPSERS, P.O. Box 30673, Lansing, Michigan 48909-8173.

NOTE M – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE N – ECONOMIC DEPENDENCY:

The School District receives approximately 14 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of Wells Township School District #18.

REQUIRED SUPPLEMENTAL INFORMATION

Wells Township School, District #18

General Fund

Budgetary Comparison Schedule

For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 345,754	\$ 350,538	\$ 352,265	\$ 4,784	\$ 1,727
State sources	3,874	4,286	4,286	412	-
Federal sources	17,344	40,904	40,737	23,560	(167)
TOTAL REVENUES	366,972	395,728	397,288	28,756	1,560
EXPENDITURES:					
Instruction:					
Basic Instruction	185,095	206,471	205,040	(21,376)	1,431
Special Education	6,185	5,995	5,875	190	120
Total Instruction	191,280	212,466	210,915	(21,186)	1,551
Supporting Services:					
Pupil Support	-	50	50	(50)	-
Improvement of Instruction	1,500	1,107	1,075	393	32
Board of Education	6,775	7,012	7,677	(237)	(665)
School Administration	41,249	39,306	38,674	1,943	632
Business Support	5,328	2,833	2,802	2,495	31
Operation and Maintenance	55,097	47,208	45,055	7,889	2,153
Pupil Transportation	71,762	71,065	68,613	697	2,452
Total Supporting Services	181,711	168,581	163,946	13,130	4,635
Payments to Others					
Gwinn School District	9,000	13,500	11,433	(4,500)	2,067
Total Supporting Services	9,000	13,500	11,433	(4,500)	2,067
TOTAL EXPENDITURES	381,991	394,547	386,294	(12,556)	8,253
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(15,019)	1,181	10,994	16,200	9,813
OTHER FINANCING SOURCES (Uses)					
Transfers out	(6,209)	(7,989)	(7,641)	(1,780)	348
NET CHANGE IN FUND BALANCE	(21,228)	(6,808)	3,353	14,420	10,161
Fund Balance, July 1	324,998	324,998	324,998	-	-
FUND BALANCE, JUNE 30	\$ 303,770	\$ 318,190	\$ 328,351	\$ 14,420	\$ 10,161

OTHER SUPPLEMENTAL INFORMATION

Wells Township School, District #18

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local Sources:			
Property tax levy	\$ 313,426	\$ 313,425	\$ (1)
Income from investments	10,800	11,098	298
Medicaid fee for service	4,400	4,008	(392)
USF contribution	4,142	5,513	1,371
Transportation payments	4,550	5,673	1,123
County special education	8,461	8,460	(1)
Other local revenue	4,759	4,088	(671)
Total Local Sources	<u>350,538</u>	<u>352,265</u>	<u>1,727</u>
State Sources:			
State school aid - unrestricted	1,961	1,961	-
Restricted:			
Durant funds	180	180	-
Special education	2,145	2,145	-
Other grants received through MARESA	-	-	-
Total State Sources	<u>4,286</u>	<u>4,286</u>	<u>-</u>
Federal Sources:			
Restricted - received through the federal government:			
REAP	34,728	34,728	-
Restricted - received through the state:			
Title V, Part A	1,825	1,825	-
Title II, Part A	2,162	2,162	-
Restricted - received through MARESA:			
Other grants	2,189	2,022	(167)
Total Federal Sources	<u>40,904</u>	<u>40,737</u>	<u>(167)</u>
TOTAL REVENUES	<u>395,728</u>	<u>397,288</u>	<u>1,560</u>
EXPENDITURES:			
Instruction:			
Basic Instruction:			
Salaries	132,919	132,916	3
Employee benefits	61,569	61,851	(282)
Purchased services	2,252	2,154	98
Supplies and materials	7,996	6,384	1,612
Capital outlay	1,735	1,735	-
Other expense	-	-	-
Total Basic Instruction	<u>206,471</u>	<u>205,040</u>	<u>1,431</u>

Wells Township School, District #18

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
Special Education			
Salaries	\$ 3,279	\$ 3,222	\$ 57
Employee benefits	2,691	2,630	61
Purchased services	-	-	-
Supplies and materials	25	23	2
Capital outlay	-	-	-
Other expense	-	-	-
Total Special Education	<u>5,995</u>	<u>5,875</u>	<u>120</u>
TOTAL INSTRUCTION	<u>212,466</u>	<u>210,915</u>	<u>1,551</u>
Supporting Services:			
Pupil Support			
Salaries	-	-	-
Employee benefits	-	-	-
Purchased services	50	50	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expense	-	-	-
Total Pupil Support	<u>50</u>	<u>50</u>	<u>-</u>
Improvement of Instruction			
Salaries	-	-	-
Employee benefits	-	-	-
Purchased services	1,093	1,061	32
Supplies and materials	14	14	-
Capital outlay	-	-	-
Other expense	-	-	-
Total Improvement of Instruction	<u>1,107</u>	<u>1,075</u>	<u>32</u>
Board of Education:			
Salaries	-	-	-
Employee benefits	-	-	-
Purchased services	6,462	6,427	35
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expense	550	1,250	(700)
Total Board of Education	<u>7,012</u>	<u>7,677</u>	<u>(665)</u>
School Administration:			
Salaries	21,113	21,112	1
Employee benefits	15,593	15,131	462
Purchased services	1,550	1,453	97

Wells Township School, District #18

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
School Administration (Continued):			
Supplies and materials	\$ 450	\$ 384	\$ 66
Capital outlay	-	-	-
Other expense	600	594	6
Total School Administration	39,306	38,674	632
Business Support			
Salaries	-	-	-
Employee benefits	-	-	-
Purchased services	2,773	2,745	28
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expense	60	57	3
Total Business Support	2,833	2,802	31
Operation and Maintenance:			
Salaries	9,260	9,235	25
Employee benefits	4,688	4,664	24
Purchased services	13,160	12,567	593
Supplies and materials	20,100	18,589	1,511
Capital outlay	-	-	-
Other expense	-	-	-
Total Operations and Maintenance	47,208	45,055	2,153
Pupil Transportation:			
Salaries	30,958	30,954	4
Employee benefits	26,767	26,357	410
Purchased services	3,490	3,240	250
Supplies and materials	9,850	8,062	1,788
Capital outlay	-	-	-
Other expense	-	-	-
Total Pupil Transportation	71,065	68,613	2,452
TOTAL SUPPORTING SERVICES	168,581	163,946	4,635
Payments to Others			
Gwinn - special education services	8,500	7,520	980
Gwinn - transportation services	5,000	3,913	1,087
TOTAL PAYMENTS TO OTHERS	13,500	11,433	2,067
TOTAL EXPENDITURES	394,547	386,294	8,253
EXCESS REVENUES (EXPENDITURES)	1,181	10,994	9,813

Wells Township School, District #18

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other Financing Sources (Uses):			
Transfers Out:			
School Service	\$ (7,989)	\$ (7,641)	\$ 348
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7,989)</u>	<u>(7,641)</u>	<u>348</u>
NET CHANGE IN FUND BALANCE	(6,808)	3,353	10,161
Fund Balance, July 1	<u>324,998</u>	<u>324,998</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 318,190</u></u>	<u><u>\$ 328,351</u></u>	<u><u>\$ 10,161</u></u>

Wells Township School, District #18

School Lunch Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
School lunch activities	\$ 3,068	\$ 2,978	\$ (90)
State aid	136	136	-
Federal sources			
Hot lunch	8,000	7,915	(85)
USDA entitlements	2,112	2,498	386
USDA bonus	320	324	4
	<u>13,636</u>	<u>13,851</u>	<u>215</u>
TOTAL REVENUES	<u>13,636</u>	<u>13,851</u>	<u>215</u>
EXPENDITURES:			
School lunch activities:			
Salaries	10,936	10,935	1
Fringe benefits	2,924	2,633	291
Purchased services	165	165	-
Supplies and materials	7,600	7,759	(159)
Capital outlay	-	-	-
Other expense	-	-	-
	<u>21,625</u>	<u>21,492</u>	<u>133</u>
TOTAL EXPENDITURES	<u>21,625</u>	<u>21,492</u>	<u>133</u>
EXCESS REVENUES (EXPENDITURES)	(7,989)	(7,641)	348
OTHER FINANCING SOURCES:			
Operating transfer in	7,989	7,641	(348)
	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Wells Township School District #18
PO Box 108
Arnold, Michigan, 49819

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wells Township School District #18 as of and for the year ended June 30, 2006, which collectively comprise the Wells Township School District #18's basic financial statements and have issued our report thereon dated September 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wells Township School District #18's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wells Township School District #18's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 1, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN
ESCANABA
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PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

September 1, 2006

To the Honorable President and School Board
Of Wells Township School District #18
PO Box 108
Arnold, MI 49819

We have audited the financial statements of the Wells Township School District #18 for the year ended June 30, 2006, and has issued our report thereon dated September 1, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Wells Township School District #18. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed test of the Wells Township School District #18's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Wells Township School District #18 are described in Footnotes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Wells Township School District #18 during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

To the Honorable President and School Board
Of Wells Township School District #18

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Wells Township School District #18's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Wells Township School District #18s, either individually or in the aggregate, indicate matters that could have a significant effect on the Wells Township School District #18's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Wells Township School District #18's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Wells Township School District #18 Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC

Certified Public Accountants